



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/10/1999

GAIN Report #CA9074

Canada

Forest Products

Poor Financial Performance in B.C. Forest Industry 1999

Prepared by:

Norval Francis

U.S. Embassy Ottawa

Drafted by:

George Myles

Report Highlights:

The recently released the PricewaterhouseCoopers annual report on the B.C. forest industry confirmed that B.C.'s forest industry lost C\$1.1 billion in 1998, the worst financial performance since annual reporting was first commissioned in 1986. Mill closures and lower sales were highlighted in the report. The industry lost 5,850 jobs, reducing average employment to 91,400 in 1998 from 97,250 in 1997. The full impact of mill closures will be realized in 1999 with a further decrease in employment levels.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa[CA1], CA

The Council of Forest Industries (COFI), British Columbia's forest industry trade association representing more than 100 corporate members and six forest industry trade associations, recently released the PricewaterhouseCoopers' annual report on the B.C. forest industry which confirmed that BC's forest industry lost C\$1.1 billion in 1998, the worst financial performance since annual reporting was first commissioned in 1986.

In a press release, COFI President and CEO Ron MacDonald said: "The staggering losses highlighted in the PricewaterhouseCoopers' annual report emphasize the need for industry and the provincial government to be committed to reducing operating costs. Cost structures need to be changed if the forest products industry is to continue as the most important economic engine in B.C. If we, as a province, hope to reap the benefits of our greatest and most renewable natural resource we cannot continue to be the highest cost producer in Canada."

The PricewaterhouseCoopers' report cited losses of more than C\$1 billion which included C\$721 million in mill closures, write-downs, and restructuring. As a result, B.C. forest companies' debt rose to C\$7.4 billion, an increase of almost C\$800 million from a year earlier. Industry capital expenditures reached their lowest level of the decade, reflecting lower returns.

COFI President MacDonald claimed that although another 5,850 direct jobs were lost, the industry remains BC's single largest industrial employer. "With wages and benefits averaging C\$62,000 a year, one realizes the importance of returning this industry to a state of health. Cost reductions implemented by industry and others by government have provided for some needed relief, but as the 1998 results indicate, the high costs faced by the industry continue to render it uncompetitive with many of our major competitors," the COFI CEO said.

Highlights of the PricewaterhouseCoopers' Report, entitled The Forest Industry in British Columbia 1998, follow:

In 1998, the British Columbia forest products industry reported its poorest financial performance since the inception of this report in 1986:

- Sales fell 7.4% to C\$15.0 billion from C\$16.2 billion in 1997 despite a 4.8 cent decrease in the Canadian dollar against its US counterpart.
- Net losses from operations rose to C\$336 million from C\$192 million in 1997.
- Mill closures, writedowns, restructuring charges and other non-operating items totaled an unprecedented C\$721 million after tax.
- In total, industry losses amounted to a record C\$1.1 billion.

Closures of several sawmills, a plywood mill and a pulp mill were announced during the year. In addition, there were shift reductions, market curtailments and other downsizing initiatives.

The industry lost 5,850 jobs, reducing average employment to 91,400 in 1998 from 97,250 in 1997. The full impact of the mill closures will be realized in 1999 with a further decrease in employment levels.

Net earnings (losses) from operations, by sector, were as follows:

- Market pulp incurred a net loss of C\$373 million in 1998, a deterioration from the 1997 net loss of C\$284 million.
- Lumber net losses amounted to C\$58 million in 1998 compared to net earnings of C\$259 million in 1997.
- Uncoated groundwood papers' net earnings were C\$46 million in 1998 compared with net losses of C\$65 million in 1997.
- Plywood and veneer had net earnings of C\$6 million in 1998 compared to net earnings of C\$3 million in 1997.
- Other forest operations' net earnings amounted to C\$43 million, an improvement from the loss of C\$105 million reported in 1997.

The log harvest declined 5.6% to 64.8 million m³ in 1998 from 68.6 million m³ in 1997.

Industry exports of C\$13.2 billion accounted for 51% of the province's total exports.

Despite the significantly poorer performance, the forest industry continued to dominate British Columbia's manufacturing sector, accounting for 46% of the province's manufacturing shipments.

The forest industry remains the largest industrial employer in the province, generating 274,000 direct and indirect jobs across British Columbia, or 15% of the provincial workforce.

The average forest industry employee earned C\$46,000 in 1998 plus benefits of C\$16,000 – unchanged from 1997 – compared to the average provincial wage of C\$32,200.

Despite continued industry losses, governments received C\$3.7 billion in payments from the industry and its employees in 1998, a decrease of C\$500 million from 1997. Direct payments to government were C\$2.0 billion in 1998, down C\$400 million from 1997. Income taxes and other payments, by or on behalf of direct employees, were down C\$100 million to just over C\$1.6 billion.

For every dollar of sales generated by the forest industry in British Columbia, 25 cents went directly to government.

For every cubic meter of timber harvested and processed, C\$57 went directly to government, of which C\$21 was stumpage.

The industry's debt increased sharply to a record C\$7.4 billion in 1998 from C\$6.7 billion in 1997, as the C\$353 million cash flow from operations was insufficient to meet capital expenditures and dividend obligations. Over C\$200 million of the increase resulted from the impact of the change in the Canada/US exchange rate on US dollar denominated debt.

Capital expenditures decreased to C\$729 million in 1998 from C\$1.2 billion in 1997. This is the lowest level of capital investment in the BC industry since the inception of this survey in 1986.

After non-operating items, the industry had a negative return on capital employed of 3.9% in 1998, down from positive 1.4% in 1997.

The average delivered log cost from Crown lands decreased to C\$79 per m³ from C\$88 per m³ in 1997. Reduced logging activity in high cost areas accounted for the majority of the decrease; lower stumpage accounted for the balance (NOTE: for stumpage reduction see CA8084).

In 1998, there were 4.2 direct and indirect jobs dependent on every 1,000 cubic meters of timber harvested.

The complete survey report is available electronically on the COFI homepage at: www.cofi.org

Find Us on the Web

Visit our headquarter's home page at <http://www.fas.usda.gov> for a complete selection of FAS' worldwide agricultural reporting.

FAS/Ottawa e-mail: usagr@istar.ca